



For Immediate Release
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BAUCUS WANTS STRONGER SCRUTINY OF TAX-EXEMPT GROUPS FOR TERROR TIES

*New report faults IRS efforts to identify possible supporters of terror,
Finance Chairman asks Treasury Secretary to explain lackluster effort*

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) today called on the Internal Revenue Service (IRS) to step up efforts to identify tax-exempt charities and nonprofit organizations with possible links to terrorist activities. In a letter to Treasury Secretary Henry Paulson, Baucus questioned why the IRS has been so slow to implement computerized tracking systems and why it uses only a limited terror watch list to screen tax-exempt groups. His questions were prompted by a new report from the Treasury Inspector General for Tax Administration (TIGTA) that found that the IRS's current system for screening tax exempt organizations' filing information offers only minimal assurance that potential terrorist-related activities are being identified. As a result, there is a significant risk that organizations with suspected terrorist links will not be reported to government agencies fighting terrorism.

"Shutting down terrorist financing is one of the biggest challenges facing our country in the aftermath of the September 11 attacks. It's disturbing that the Treasury Department does not require the IRS to use the most basic tool for fighting terrorism financing: a comprehensive watch list," said Baucus. **"A significant source of alleged terrorist support has been through charities and nonprofit organizations, and the IRS needs to use all of its available resources to identify tax-exempt organizations with potential links to terrorist groups."**

TIGTA investigators found that the IRS has no real system for screening nonprofits for terrorist connections. They found that the main criterion used by IRS personnel in screening nonprofits is to look for "Middle-Eastern sounding names." Beyond obvious concerns about discrimination, the process seems particularly inefficient. The TIGTA report found that the IRS uses a manual process and a limited terrorist watch list from the Department of the Treasury to screen tax-exempt entities for links to individuals or groups with possible links to terrorism.

The text of the Senator's letter is below.

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May 25, 2007

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

Dear Mr. Secretary:

The United States Senate Committee on Finance has jurisdiction over the Department of the Treasury and the Internal Revenue Service. The Committee has a responsibility to protect the integrity of the tax system and has taken particular interest in the Treasury Department's efforts to stop charities and other nonprofits from funding terrorism.

The Treasury Inspector General for Tax Administration (TIGTA) released a report today criticizing the IRS for using an inadequate system to screen nonprofit organizations for connections to terrorist groups. The report found that the IRS system for reviewing documents from tax-exempt organizations "provides minimal assurance that potential terrorist-related activities are identified." The IRS consults a list compiled by the Office of Foreign Assets Control (OFAC) that fails to include tens of thousands of individuals and organizations that the government considers to have potential terrorist links. In addition, the IRS is relying on manual reviews of tax documents and has been slow to consider upgrading to a more efficient automated system.

TIGTA investigators found that the current IRS screening process has never identified any person or organization with links to terrorists and that the agency is using a system that is, at best, woefully inefficient. IRS personnel told TIGTA that they primarily look for "Middle Eastern sounding names" when considering which tax filings to flag for further review. This revelation is disturbing for a number of reasons. Beyond the potential for discrimination, the process raises concerns that the IRS is allowing individuals with terrorist connections to avoid detection simply because their names do not fit into a narrow predetermined profile.

When IRS personnel find a person or organization that they determine deserves further scrutiny, they consult a list drawn up by OFAC. That list includes the names of 1,600 individuals and organizations that have had their assets frozen by the Department of the Treasury because of suspected terrorist ties. The government's Terrorist Screening Center, however, keeps a comprehensive list of individuals and organizations suspected of having terrorist ties. That list, which includes more than 200,000 names, is available to the IRS but is not being used by the agency's screeners, according to the TIGTA report.

The report also notes that the IRS has been testing automated systems for reviewing documents submitted by tax-exempt organizations since 2004, but would need at least another year to develop a strategy to automate the checking of names. I am concerned that the IRS has not implemented a coherent terrorist tracking system in a timely manner.

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The Department of the Treasury has identified charities and other nonprofit organizations as major players in terrorist networks. Given that determination, it is troubling that the IRS continues to use a screening process that makes it difficult for agents to identify terrorists.

I would appreciate responses to the following questions:

Why does the IRS use the OFAC list of suspected terrorists instead of the more comprehensive list kept by the Terrorist Screening Center?

Why are IRS personnel screening potential terrorist financiers by looking for people with “Middle Eastern sounding names”? What directives have IRS personnel received from the IRS Tax Exempt and Government Entities Division on how to determine whether to flag a person or organization named in a Form 990 or Form 1023 for terrorist ties? Does the Division have written policies for screeners to use to determine whether a person or organization deserves further scrutiny? If so, please provide these documents.

In response to the TIGTA report, the IRS agreed to develop a strategy to automate the checking of names by December 31, 2008. If the Tax Exempt and Government Entities Division has been testing automated systems since 2004, as the IRS claims, why would it need more than a year just to develop a strategy for automating the system? What progress has the agency made since 2004 on this project?

Please explain in a timeline the steps taken to put in place an automated system for checking names associated with nonprofits from September 11, 2001 to June 1, 2007. Also, please explain why it will take the Treasury Department over seven years since 9/11 just to develop a “strategy” to put in place an automated system.

When is a fully automated system expected to be in place at the IRS?

Treasury’s Office of Terrorism and Financial Intelligence (TFI) has been operating for over three years. What effort did the TFI make to monitor this situation at the IRS and what changes were demanded by TFI to improve the matching of tax forms from nonprofits and terrorist watch lists.

I look forward to hearing from you by June 15 regarding the concerns and questions included in this letter. If you have questions, do not hesitate to contact John Angell at 202-224-4515. All formal correspondence should be sent electronically in PDF format to avi_salzman@finance-dem.senate.gov.

Sincerely,

Max Baucus
Chairman

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